

March 13, 2017

Ex Parte Notice

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street SW
Room TW-A325
Washington, DC 20554

RE: WC Docket No. 10-90 – *Connect America Fund*

Dear Ms. Dortch:

On Thursday, March 9, 2017, Chad Duval and Stuart Polikoff of Moss Adams LLP, Brian Ford of NTCA – the Rural Broadband Association, and Remi Sun of Nemont Telephone Cooperative, Inc. met with Jay Schwarz, Acting Wireline Advisor for Chairman Pai, and Suzanne Yelen, Craig Stroup, and James Eisner of the Wireline Competition Bureau. Also participating by telephone was Bruce Todd of Strata Networks.

In the meeting we discussed the Universal Service Administrative Company's (USAC) calculation of a rate-of-return carrier's reduction of high-cost loop support (HCLS) under the per-line reduction component of the budget control mechanism (BCM).¹ Specifically, for those rate-of-return carriers subject to the "parent trap" rule,² USAC is multiplying the per-line reduction amount by the carrier's total number of lines – including acquired lines that are not eligible for HCLS. The BCM for HCLS applies to loops that are eligible for support, and while some lines subject to the parent trap are eligible for HCLS, most are not. Lines transferred from price cap carriers were never eligible for HCLS and only price cap carriers in certain states were ever eligible for high-cost model support (HCMS). Acquired lines that are not eligible for HCLS have no impact on the demand for HCLS and overall rate-of-return carrier high-cost support, and thus have no bearing on the BCM being effectuated.

¹ *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Order and Order on Reconsideration and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087, 3144-45, para. 153 (2016).
See also, 47 C.F.R. §54.1310(d)(2)(i).

² 47 C.F.R. §54.305.

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This illogical and inequitable application of the per-line component of the BCM makes it more challenging for these carriers to expand and upgrade their broadband networks and offer service at affordable rates. As shown in the attached spreadsheet, it is estimated that 14 rate-of-return study areas with parent-trapped, HCLS-ineligible loops are affected by this improper calculation, reducing their collective annual support by approximately \$280,000 more than it would be if the per-line reduction was applied only to their HCLS-eligible lines.³ We urged that the Commission take the necessary steps to restore fairness in the application of the per-line component of the BCM by not having it applied to parent-trapped lines that are ineligible for HCLS.

In addition, we discussed the unintended consequences that the Maximum Average Per Location Construction Project Loop Plant Investment Limitation (Limitation) of the Capital Investment Allowance for rate-of-return carriers may have on broadband investment and deployment. The rules for the Limitation⁴ are worded in way that eliminates all investment associated with projects that exceed the Limitation from the calculation of high-cost support, rather than limiting investment for such projects to the Limitation. We also discussed other general concerns that are causing confusion among rate-of-return carriers on the calculation of the Limitation and the additional accounting and regulatory burdens resulting from these calculations.

Pursuant to 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS.

Sincerely,

/s/ Chad Duval
Chad Duval
National Practice Leader
Communications and Media Practice
Moss Adams LLP

cc: Jay Schwarz
Suzanne Yelen
Craig Stroup
James Eisner

³ The attached spreadsheet is an updated version of the spreadsheet that was distributed at the meeting.

⁴ 47 C.F.R. §54.303(f).

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March 9, 2017
Revised March 13, 2017

Analysis of HCLS BCM on Parent Trapped Companies
As of Date of Acquisition

Buyer SAC	Buyer Name	Original Loops	Projected Support	Seller SAC	Seller Name	Date of Acquisition	HCLS/HCMS	Acquired Loops	HCLS BCM 6 Mo. Impact
341049	Madison Telephone Company	1,275	928,860	341057	Gallatin River Communications	6/1/2001	No	2,219	\$ 9,453
350739	Reasnor Telephone Company	-	32,148	351306	Sully Telephone Association	1/1/2006	Yes	189	\$ 805
351187	Partner Communications Corporation	780	605,556	351167	Windstream Communications	7/1/2006	No	1,628	\$ 6,935
351229	Lost Nation-Elwood	490	242,940	351170	Windstream Communications	6/1/2006	No	259	\$ 1,103
351262	Comm 1 Network	530	145,116	351167	Windstream Communications	11/1/2002	No	581	\$ 2,475
351271	Panora Communications Cooperative	1,511	153,612	351344	Colo Telephone Company	5/1/2010	Yes	149	\$ 635
351297	Heart of Iowa Communications	1,794	1,101,804	351167	Windstream Communications	5/1/2006	No	2,190	\$ 9,329
3511298	South Sloop Cooperative Telephone	6,884	1,553,568	351096	Heartland Telecommunications Company of Iowa d/b/a Premier Communications	8/1/2001	Yes	774	\$ 3,297
351407	Killduff Telephone Company	-	30,924	351292	Searsboro Telephone Company	11/1/2004	Yes	178	\$ 758
361451	Paul Bunyan Rural Telephone	10,572	2,325,852	361357	Blackduck Telephone Company	1/1/2010	Yes	80	\$ 341
381611	Dickey Rural Cooperative	7,545	1,728,468	381131	Citizens-Frontier-ND	11/1/2002	No	2,188	\$ 9,321
381614	Polar Communications Mutual Aid	1,189	183,012	381131	Citizens-Frontier-ND	11/1/2002	No	567	\$ 2,415
381625	Northwest Communications Cooperative	5,934	1,203,000	381623	Noonan Farmers Telephone	12/1/2005	Yes	185	\$ 788
381631	Red River Communications	3,260	1,068,432	381131	Citizens-Frontier-ND	11/1/2002	No	814	\$ 3,468
381632	Reservation Telephone Cooperative	7,733	4,607,976	381131	Citizens-Frontier-ND	4/1/2003	No	3,513	\$ 14,965
382247	Nemont Telephone Cooperative - ND	222	380,364	381131	Citizens-Frontier-ND	4/1/2003	No	7,190	\$ 30,629
383303	SRT Communications	23,639	1,435,968	381447	North Dakota Telephone	5/1/2007	Yes	564	\$ 2,403
391405	Alliance-Hills SD	-	65,076	391677	Sioux Valley Telephone Company	6/1/2005	Yes	496	\$ 2,113
391680	Venture Communications Cooperative	9,647	3,256,848	395145	Qwest Corporation - SD	12/1/2000	Yes	2,272	\$ 9,679
411746	Blue Valley Tele-Com	2,456	2,534,448	411842	United Telephone Company of Kansas	12/1/2005	Yes	1,097	\$ 4,673

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Buyer SAC	Buyer Name	Original Loops	Projected Support	Seller SAC	Seller Name	Date of Acquisition	HCLS/HCMS	Acquired Loops	HCLS BCM 6 Mo. Impact
411778	Gorham Telephone Company	239	384,636	411826	Rural Telephone Service Company	11/1/2006	Yes	195	\$ 831
411826	Rural Telephone - Nex-Tech	5,945	3,119,400	411842	United Telephone Company of Kansas	11/1/2006	Yes	3,347	\$ 14,258
411840	Twin Valley Telephone Inc.	1,530	215,196	411842	United Telephone Company of Kansas	9/1/2006	Yes	3,762	\$ 16,026
457991	Saddleback Communications	970	1,035,876	455101	Qwest Corporation - AZ	12/1/2001	No	2,379	\$ 10,135
502278	Emry Telcom	3,322	-	505107	Qwest Corporation - UT	4/1/2001	No	6,660	\$ 28,372
502282	Manti Telephone Company	1,346	-	505107	Qwest Corporation - UT	4/1/2001	No	1,134	\$ 4,831
502288	All West Communications - UT	4,627	1,355,496	505107	Qwest Corporation - UT	4/1/2001	No	1,523	\$ 6,488
532369	Eagle Telephone Systems	431	456,984	472226	Midvale Telephone Exchange Inc.	5/1/2010	Yes	12	\$ 51
Totals		103,871	30,151,560		Total of HCLS BCM on All Parent Trapped - 6 Months		28	46,145	\$ 196,578
					Impact of HCLS BCM on Ineligible Parent Trapped - 6 Months		14	32,845	\$ 139,920

Notes:

1. Source for most data is the NECA USF Data Submission found at <https://www.neca.org/PublicInterior.aspx>.
2. Source for determination of HCLS/HCMS eligibility for most companies is the USAC Disbursement Tool found at <http://www.usac.org/hc/tools/disbursements/default.aspx>.
3. Additional HCLS/HCMS eligibility was analyzed using USAC's 1999 Fourth Quarter Filings, High Cost Fund Support by Study Area.xls, found at <http://www.universalservice.org/about/tools/fcc/filings/1999/q4.aspx>.
4. Access lines acquired from a parent company that was not eligible for HCLS or HCMS at the time of the acquisition are not eligible for HCLS today.
5. Access lines acquired from a parent company that was eligible for HCLS or HCMS at the time of the acquisition are eligible for HCLS today, regardless of whether support has ever been paid.
6. A-CAM electors have been removed from the analysis as the Parent Trap does not apply to A-CAM recipients.